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## Club Vita: Where Levity Meets Longevity Risk

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By Vanessa Drucker      Tue, Jun 10, 2014

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*The cartoon characters in hazmat suits on Club Vita's website handle "toxic waste." It's a metaphor for the actuarial consultancy's real service: helping the remaining DB plans in the UK deal with longevity risk.*

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Club Vita's London headquarters are housed in a gleaming, glass-walled 13-story building, designed in 2003 by architects Foster and Partners. From a window in the reception room, visitors can glimpse a handsome tree and a section of an ancient wall that the Romans built sometime around 200 A.D.

The juxtaposition of ancient and modern appropriately represents a firm that pioneers longevity research. Launched in 2008, as a sister company to actuarial consultancy Hyman Robertson, Club Vita delivers longevity analysis and prediction to pension plans of over 200 clients from a cross section of industries: banks, insurance companies, technology, basic materials, industrials, consumer goods and services, utilities and local government. That roster includes major UK firms like Aviva, BP, Diageo, Johnson Matthey and the Daily Mail.

Club Vita works like a real club, with member firms paying subscriptions to receive top-notch statistics gleaned from their deep collective pool of data. The aim is to provide sharper insights into the life expectancy of every participant in a given plan, and thus improve on ad-hoc adjustments to standard mortality tables. The company's own 20 employees, including actuaries, statisticians and infrastructure specialists, have developed the largest data base of its kind in the UK, to help firms manage the danger of unexpectedly long-lived participants.

### **A green solution**

"It's a particularly nasty risk in our business," explains Steven Baxter, one of the firm's longevity experts. He and I sit in a conference room, facing the Museum of London, which is devoted to the capital city's history since prehistoric eras. It's another reminder of how time marches on. "Longevity risk is creeping and insidious," he continues, noting the imaginative theme on the firm's website at [www.clubvita.co.uk](http://www.clubvita.co.uk). Graphics there depict avocado-shaped cartoon figures in avocado green hazmat suits, engaged in waste disposal activities.

The point is that dangerous longevity risk requires expert handling, with millions of pounds in UK pension plans at stake. So why did Club Vita decide to go with such whimsical illustrations for marketing their ultra-serious, even somber, service? "We wanted to make life a bit more fun," is the simple answer. Even the name—vita means life—expresses a positive goal. "At one point, we actually considered buying some of those green suits and modeling them!" Baxter smiles.

In order to sidestep those unpleasant longevity surprises, plans need a thorough understanding of their membership dynamics, as well as ongoing trends and projections. Club Vita, which looks across workers in diverse industries, is positioned to drill down and calibrate for a granular mortality experience. Its

statistical sample pool comprises about 2 million retirees from member firms who are receiving pensions, along with another 4 million pre-retirees. “We focus most on the retired cohort,” says Baxter, “since the probability would be low that a 30-year-old would die soon.”

In its detailed level of analysis, the group takes into account a host of factors. It measures affluence, considering both pay at and during retirement; geo-demographics, refined down to local postal codes as precise as 12 to 20 houses; age and gender; occupation and health. As another unique element in Club Vita’s manipulation of data, Baxter adds, “we can also use marketing information around consumer habits, like supermarket loyalty rewards.” That sophisticated analysis helps to establish individuals’ characteristics for comparing tiny clusters in the postal code map.

Club Vita meanwhile prides itself on accessing the most current data, as subscribers update their memberships annually. That timeliness is key to compiling accurate insights. Other statistical record keepers, particularly the Office for National Statistics (ONS) model, estimates for the live UK population based on extrapolations from a 10-year census, which risks error around under-reporting and migration. For example, one important development has been improvement patterns in longevity between socio-economic groups, based on lifestyle adjustments. “We both see that gap narrowing, and our results are consistent with ONS, but we see insights sooner,” Baxter explains.

### **£1.2 trillion in DB liabilities**

Exact prediction counts in the tug-of-war between exposure to costly shortfalls and tying up unnecessary funds for reserves in defined benefit plans. (The defined contribution market is a different game, where participants shoulder their own longevity risk, by individually assuming that burden upon retirement.) Club Vita primarily serves the shrinking but still substantial DB universe, which now represents eight percent of UK pensions. According to the Purple Book, published annually by the Pension Protection Fund and Pensions Regulator, DB liabilities in January 2014 stood at £1.2 trillion.

The trouble is that UK plans are not fully funded, and not every company can afford the cash to transfer the shortfall risk, nor are all equipped to buy insurance. That whopping sum of DB obligations in the UK swamps the capacity of the insurance industry to absorb that longevity risk.

Here is where Club Vita plays its role. It helps level the playing field and keeps the longevity insurance players honest. Those counterparties have enjoyed a long history of writing insurance and managing risk. In such a highly competitive sellers’ market, and commanding a wealth of information about key factors, they are advantageously placed to name their own prices. Compounding their advantage, insurers can balance out some of their life insurance costs against annuities, if account holders live longer.

Before Club Vita came on the scene, the pension industry had little or few comparable data pools to work from, but the club has shifted the asymmetry, so that pension plans can finally assess whether they are indeed paying a fair price. “In the past,” says Baxter, “they relied on guesswork or a leap of faith. But now we provide the science.”

Specific conditions, causing companies pain in funding DB plans from their own pockets, began to

transpire in the UK in the late 1990s. Similar storm clouds are now gathering in the US, according to Baxter. First, a change in accounting practices in the UK, with increased marking-to-market, have made corporate balance sheets more sensitive to interest rate levels. That means payments tied to the end of a contract have become more valuable, and hence a material issue. These adjustments have resulted in the recognition of the critical importance of understanding longevity patterns, as a way to avoid surprises and gain better insights.

That mission is the driving rationale behind Club Vita's unique offering. As its clever artwork illustrates, little avocado figures scuttle to monitor and shore up toxic, elusive substances, dispatching them into risk reduction units to contain the challenge. Where knowledge is power, Club Vita provides advance preparedness.

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